

STATE OF CALIFORNIA
ELECTRICITY OVERSIGHT BOARD



DRAFT MINUTES
STATE OF CALIFORNIA
ELECTRICITY OVERSIGHT BOARD
April 18, 2001
Department of Social Services
744 P Street
Sacramento, CA

ATTENDANCE

The following Board members present:

Ms. Kari Dohn
Mr. Bruce G. Willison

The following Board members
were absent:

Assemblyman Roderick Wright
Senator Debra Bowen

Others present:

Mr. Tom Siegel
Mr. George Saldoje
Mr. Joseph A. Eisenberg
Mr. Richard Jacobs
Mr. Charles Robinson
Mr. Phil Leiber
Mr. Keith Casey

**Electricity Oversight Board (EOB or Board)
staff present:**

Mr. Gary C. Heath, Executive Director
Mr. Erik N. Saltmarsh, Chief Counsel
Ms. Catherine George, Staff Counsel

Acting-chairperson Dohn called the meeting to order at 1:00 p.m. and established a quorum.

GENERAL SESSION

The following agenda items were discussed in general session:

Action Item: APPROVAL OF MINUTES

Motion

Mr. Willison moved approval of the minutes from the January 23, 2001, EOB Meeting.

Acting-chairperson Dohn seconded the motion, which passed 2-0.

Action Item: APPROVAL OF THE APPOINTMENT OF MR. MICHAEL KAHN AS THE CHAIR OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR (CAISO) BOARD OF GOVERNORS

Motion

Mr. Willison moved approval to appoint Michael A. Kahn as the chairman of the CAISO.

Acting-chairperson Dohn seconded the motion, which passed 2-0.

Action Item: APPROVAL OF AMENDMENTS OF THE BYLAWS OF THE CAISO TO CONFORM TO AB 5X

At the EOB meeting on January 23, 2001, the EOB directed the CAISO to review its corporate documents and submit revisions to those documents, if necessary, to conform with Assembly Bill 5X. Ms. Catherine George, staff counsel for the EOB, reported that CAISO staff prepared 16 sets of amendments to the CAISO bylaws. Ms. George recommended that the EOB Board approve each of the 16 sets of amendments to the CAISO bylaws. Mr. Richard Jacobs, Senior Corporate Counsel for the CAISO, appeared on behalf of the CAISO.

Motion

Mr. Willison moved approval of the 16 sets of amendments and updates to the CAISO bylaws.

Chairperson Dohn seconded the motion, which passed 2-0.

MANAGEMENT REPORT

Mr. Gary Heath, Executive Director of the EOB presented the Management Report.

Status report: EOB's FY 2001-2002 Budget

Senate and Assembly subcommittees will soon begin consideration of the EOB's budget. The progress and status of these meetings will be reported back to the Board on a regular basis.

Currently, the EOB has an excess of \$700,000 to return to the general fund, assuming an absence of additional litigation or other consultation expenses. In part, the under-spending is due to the inability to find and hire qualified individuals for market analysis and legal counsel positions.

In regard to increased data processing expenses, the EOB installed an updated information system to facilitate the gathering, analysis and organization of energy related data for the purposes of performing electricity market research.

Current legislation

Assembly Bill 83X involves implementation of the Governor's Executive Order D-23 and requires that the EOB, with the CAISO, establish outage standards for generation facilities. The CAISO is in the process of developing outage standards and proposed changes in its tariff to implement the improved coordination intended by AB 83X. It is anticipated that the CAISO will complete this process in May. The EOB continues to work with the California Public Utilities Commission (CPUC) on specific bill language. If the bill passes, further proceedings are needed to discuss the process of rulemaking by the EOB to adopt specific regulations and rules related to the outage standards.

The EOB is currently tracking federal legislation that potentially impacts state authority in a number of areas, including transmission siting and dealing with generation issues.

CHIEF COUNSEL REPORT

Mr. Erik Saltmarsh, Chief Counsel of the EOB, presented the Chief Counsel Report.

Updates to the Board regarding ongoing administrative and judicial litigation, including bankruptcy proceedings, will be presented through periodic staff reports given directly to the Members. Major matters that warrant policy discussion will be brought directly to the Board's attention.

The federal court of appeals for the District of Columbia Circuit issued a decision in the action entitled *Western Power Trading Forum vs. Federal Energy Regulatory Commission*, which involved a challenge to the then governance structure of the CAISO. The court essentially dismissed the appeal on the basis that the issues presented were rendered moot by California legislation subsequent to the appeal that revised the governance of the CAISO.

Mr. Saltmarsh reported that further challenges to the governance structure of the CAISO can be expected.

CALPX AND CAISO REPORTS

CalPX: Bankruptcy Status Report

Mr. George Sladoje, Chief Executive Officer of the California Power Exchange (CalPX), and Mr. Joe Eisenberg, legal counsel from Jeffers, Mangels, Butler & Marmaro, reported on the status of CalPX's bankruptcy proceedings. Mr. Sladoje gave an overview regarding the events that led to, and the reasons for, the CalPX's decision to file a Chapter 11 bankruptcy petition. Mr. Sladoje indicated that the bankruptcy filing was made, in large part, to provide a single forum to manage numerous lawsuits filed against the CalPX in various jurisdictions across the country.

Mr. Sladoje reported that the CalPX would continue its regular settlement function for certain block forward transactions through May 2001. Other issues confronting the CalPX include ongoing FERC proceedings relating to chargebacks and recalculations of prior trades and the management of information and data for ongoing audits, investigations and hearings.

Member Willison stated for the record that EOB should pay special attention and investigate all measures necessary to ensure the interests of the EOB are served regarding protection of the CalPX data.

Mr. Eisenberg reported on the mechanics of the bankruptcy proceeding, including the formation of committees representing the interests of CalPX participants and creditors, the source of funds to pay for ongoing CalPX expenses, and recover of participant funds. The CalPX has obtained court authority to pay for critical personnel needed to complete the winding down of its affairs.

CAISO: Financial Report

Mr. Phil Leiber, Treasurer for the CAISO, presented a report on the current financial condition of the CAISO. The report provided an overview of revenue, expenses, capital spending, cash flow, cost of debt service, and the impact of the PG&E bankruptcy on the CAISO operations. It was reported that revenue is currently sufficient to satisfy expenses. However, significant uncertainty exists in the near future based on anticipated delays in payment resulting from the PG&E bankruptcy filing, generator disputes and increases in the cost of debt service. Operating costs and capital expenditures are being closely monitored and a goal of 60 percent reduction from original forecasts for this fiscal year is being evaluated. The CAISO is working to identify alternative funding sources.

Mr. Charles Robinson, Vice President and General Counsel for the CAISO, addressed other potential impacts on CAISO operations due to the PG&E bankruptcy. The three areas discussed related to qualifying facilities (QFs), the relationship with the California

Department of Water Resources (DWR), and operation and maintenance of transmission and distribution assets. Mr. Robinson reported that PG&E's bankruptcy filing creates some uncertainty regarding payment of past debts to QFs and therefore may impact QF availability for providing energy as well as other grid stability functions.

Mr. Robinson further reported the DWR has agreed to act as a creditworthy counter-party for CAISO transactions only to the extent they involve reasonable price bids. DWR will make the determination whether the transaction is reasonable on a case-by-case basis. EOB Board Member Mr. Willison questioned if DWR's agreement to back CAISO transactions might affect its potential responsibility to pay the CAISO's grid management charges. Mr. Robinson stated that DWR's status as a load serving entity is unclear and that DWR has not yet agreed to pay grid management charges.

CAISO: Market Conditions and Electricity Emergencies

Mr. Keith Casey of the CAISO Market Analysis Department presented an overview of market performance over the previous two months. Mr. Casey emphasized that despite significantly lower loads during February and March 2000, average real-time energy costs remained high (in excess of \$300 Mw/h). The primary forces contributing to continuing high average cost of electricity include high natural gas prices, tight supply conditions driven by low hydro availability, low imports, unit outage, financial uncertainty surrounding payment to sellers of energy in the California market, and the significant exercise of market power by major energy suppliers.

Mr. Tom Siegel, CAISO Senior Compliance Engineer, overviewed summer 2001 programs. The CAISO is attempting to address summer 2001 conditions by implementing a participating ancillary services load program, discretionary load curtailment program and demand relief program. The CAISO is also working with air quality officials to gain access to backup generators as well as increasing public information programs to highlight conservation efforts and extend power watch notifications via Internet communications.

PUBLIC COMMENT

No public comment was offered.

CLOSING

Member Willison called the public session to a close.

The meeting was adjourned at 2:35 p.m.